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March 29, 1999

EX PARTE

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

CC Docket No. 96-45

Dear Ms. Salas

On March 26, 1999 Chuck Goldfarb and I met with Lisa Zaina, Deputy Chief of the Common Carrier Bureau, Katherine Schroeder, legal advisor to the Common Carrier Bureau Chief, and Craig Brown, Deputy Chief of the Accounting Policy Division. In the meeting, we discussed issues related to the development and implementation of the universal service support mechanism for rural, insular, and high cost areas. Specifically, MCI WorldCom advocated the positions described in the attached document, which was provided at the meeting.

Sincerely,

Lori Wright

Lori Wright
Senior Manager, Regulatory Affairs

cc: Lisa Zaina
Katherine Schroeder
Craig Brown

Universal Service
Roadmap for FCC Action

March 26, 1999

MCI WORLDCOM

THREE MESSAGES

- The FCC must assume leadership on Universal Service by staying its course and implementing true reform.

- The FCC is on the right course. It already has taken many steps needed for proper implementation consistent with fairness and competition.

- Universal Service reform would be perverted into an anticompetitive revenue insurance policy for ILECs if an explicit interstate fund were created and these new funds were handed to the states for intrastate rate reductions.

THE FCC MUST ASSUME LEADERSHIP ON UNIVERSAL SERVICE BY STAYING ITS COURSE AND IMPLEMENTING TRUE REFORM

- Almost all parties industry agree that definitive action is needed.
- The Act clearly mandates Commission action.
- The Supreme Court stated that "Section 254 requires that {implicit} universal service subsidies be phased out."
- Failure to address Universal Service causes policy makers to pull their punches on implementation of procompetitive steps, e.g., loop rate deaveraging.

The FCC is on the right course. It already has taken many steps needed for proper implementation consistent with fairness and competition:

- development of a TELRIC proxy model.

- properly defining Universal Service needs as the difference between forward-looking economic costs disaggregated by geographic cost zones and revenue benchmark.

- matching explicit interstate fund with $ for $ reductions in interstate access charges (with the exception of the old high-cost fund, which is an acceptable way of preventing strong dissent from some of the States).

- implementing Access Charge reform as well as Universal Service reform.

Universal Service reform would be perverted into an anticompetitive revenue insurance policy for ILECs if an explicit interstate fund were created and these new funds were handed to the states for intrastate rate reductions.

- if an explicit interstate fund is created, but $ for $ reductions are not made in interstate access charges:
  - implicit interstate subsidies remain, thus creating a double burden on interstate customers.

- shifting dollars from the interstate to the intrastate jurisdiction does not contribute toward meeting Universal Service needs because it is the level of funding, not the jurisdictional source, that determines whether the needs are met; shifting dollars from the interstate to the intrastate jurisdiction simply creates an ILEC revenue insurance policy against any rate/revenue erosion from competition.

- this guaranteed revenue flow allows ILECs to strategically cut prices in advance of actual competition. (Do not repeat payphone experience, where some states allowed ILECs to selectively reduce retail rates, rather than implicit subsidies in state common line charges.)

Don't change what you've already done right.

- Stick with TELRIC, using multiple geographic cost zones to best reflect true costs.

- There has been discussion of replacing the revenue benchmark with a cost benchmark, to "correct" for the overstatement of costs if geocoding is replaced with road surrogate. DON'T COMPOUND ONE MISTAKE WITH ANOTHER!
  - Moving away from a revenue benchmark undermines the principled approach to calculating a subsidy -- comparing costs to a measure of affordability.
  - Using an average cost for a benchmark does not target Universal Service subsidies to high-cost residential and small business customers.

- Stick with $ for $ reductions in interstate access charges

If you employ good public policy principles, then you can negotiate among the parties to fine tune the results.

- As long as explicit interstate fund is matched by $ for $ reductions in interstate access charges, no group of customers is harmed if the interstate share of the total Universal Service burden increases beyond 25%.

- If *minor* accommodation is needed for "low tax base" states, employ a superbenchmark or multiple benchmark approach to increase interstate share of very high cost areas.

Administrative efficiency calls for assessment on interstate and intrastate revenues, recovery through a line item surcharge on all telecom revenues.

- This is an issue on which all industry parties agree (see for example, the USTA proposal).

- The FCC has the authority to assess intrastate as well as interstate revenues when creating an explicit fund, but fairness requires dollars collected from intrastate customers to be matched by reductions in intrastate rates. Specific intrastate rate reductions should be left to the state commissions.